

ER 8-1093

Cud
Honorable Joseph M. Dodge
The White House
Washington, D. C.

Dear Joe:

Thank you very much for making available
to me George Humphrey's comments on recent papers
concerning economic activities in Free World areas.
I found them most interesting.

Sincerely,

TREA has not reviewed.
Processed IAW CIA TREA
arrangement letter dtd 4/11/08.

Allen W. Dulles
Director

O/DCI, :j1 (10 Apr 56)

Distribution:

- 1 - DCI
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White House

SECRET

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Executive Registry

8-0564

[Handwritten signature]

20 March 1956

MEMORANDUM FOR: Deputy Director/Intelligence

SUBJECT: Comments by the Secretary of the Treasury
on Bloc Economic Activities in Free World
Areas

1. Attached please find two copies of a memorandum from Secretary Humphrey to Mr. Dodge commenting on recent papers concerning Bloc economic activities in Free World areas.

2. Mr. Dodge requested that the attached paper be called to the attention of Mr. Dulles and Mr. Amory.

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Attachment (2)
As noted above.

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Handwritten: "Send To CIA - for him & his authority & where possible to make Joe's

Dear Joe:

We have reviewed with keen interest the material which you have sent on Soviet trade with the less-developed areas. All of this poses in pungent form the problem we face. Let me take advantage of your invitation for comments.

We ought to accept at once the fact that Soviet trade with the rest of the world will increase. That ought not to panic us into foolish competitive moves. We ourselves have certain great advantages in economic competition which we should not underestimate. Let me suggest what they are:

First, Soviet Bloc trade is on a state basis. Free world trade is primarily on a private commercial basis. To make a meaningful comparison of Soviet and Western economic relations with the less-developed areas it is necessary to look at Western private commerce, credit, and long-term investment as well as government activities. As of now, our trade is overwhelmingly larger.

Private trade has the great advantage of bringing to bear the energies and ingenuity of many thousands of American companies and individuals. The present situation offers a test of our belief that private enterprise is more efficient than state trading.

Second, the amount and quality of goods the Bloc countries have available to trade is still much below that available to the free world.

Third, the Bloc countries have no machinery of aid comparable to ours with: the International Bank, the Monetary Fund, the Export-Import Bank, P.L. 480, ICA, etc. We can offer a rounded program of aid they cannot approach, the long term benefits of which have been demonstrated.

Fourth, Soviet trade and loans are accompanied by subversion. This should be increasingly clear to everybody.

While we should never underestimate the Soviet menace as they turn from threat of war to threat of trade, we have great strength in that field -- much greater than theirs.

Our problem is how to play up our strength -- to use it to advantage -- not to surrender our principles and try to play their game.

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How to play up our strength is mostly a matter of people -- getting good, sound people -- who understand private enterprise -- on the job in the field and in Washington.

To put this another way, -- when a good business encounters cheap, unsound competition, it does not outbid the competition but puts more and better salesmen on the job to sell quality and lasting service. It will not keep all the business but will keep the best.

The attached memorandum develops some of these ideas further.

Sincerely yours,

(signed) G. M. Humphrey

Secretary of the Treasury

Honorable Joseph M. Dodge
Chairman, Council on Foreign
Economic Policy
Room 200, Executive Office Bldg.
Washington 25, D. C.

Enclosure

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MEMORANDUM

Subject: Notes on "The Nature and Problems of Soviet Economic Penetration in Underdeveloped Areas."

The memorandum gives a comprehensive survey of the Soviet economic threat. One important question which may be raised is whether it does not tend to relate Soviet Government activities to U. S. Government activities and not deal with the area of private trade and investment, where the great strength of the United States and the rest of the free world lies. It seems to match Soviet trade against United States Government aid.

The Soviet offensive clearly creates real problems for us, but, if we are going to deal with it intelligently, we must keep it in perspective. In the first place, we ought to look at the total trade of the Bloc with the less developed countries and compare it with the total trade and investment of the United States and the other free world nations. Obviously, peaceful trade can take place between the Bloc and the less developed areas with economic advantage to both. Until recently, the Soviets have been pursuing a policy of economic autarchy and the Bloc share of free world trade has been very small -- only about 2-1/2 percent. It now appears that this policy is being relaxed. Whether the move is being made primarily for political reasons or economic reasons, or both, we will be in a very difficult position in trying to prevent free world countries from going ahead with trade which is economically advantageous to them. About the only way this could be done would be through unlimited government preemptive buying, and this is clearly out of the question.

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In any event, the President has said publicly at Geneva that an expansion of trade with the Bloc in non-strategic goods is much to be desired. We can't very well promote such trade for ourselves and for Western Europe but try to stop it for the underdeveloped areas.

We need to remember that the Soviets work on a state trading system. Soviet Government negotiators do deal with private firms in some cases but where the government of the other country is willing, they usually deal on a government-to-government basis. This means that they can wrap up the entire trade, covering a period of some years, in a single package. If it is an attractive package, which it may well appear to be, the Soviet Government can get a propaganda advantage out of the deal in many ways. One way is to match what the Soviet Government is doing with what Western Governments are doing and draw an analogy between Soviet barter trade deals and United States economic assistance. Such comparisons are, of course, quite erroneous; not only because the Soviets are offering nothing comparable (except possibly in the technical assistance field) to United States grant aid, "soft" loans through ICA, or PL 480 sales, but also because they represent an attempt to compare the whole trade of the country with the activities of the United States Government. This is difficult to deal with, especially in the initial stages when there is no test of Soviet performance.

It is important to understand also that the terms of Soviet trade offers may be highly deceptive. It is not easy to draw an accurate comparison with Western trade or with the public financing which is done by

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the United States Government. The interest rate attaching to Soviet credit offers may be the least important element in the transaction with the relative prices implied in the barter terms being much more important. A cut-rate or discount level of interest charges is not advantageous if the purchase price is above the level at which competitive goods could be obtained in free world markets. Furthermore, the Soviet offers to accept payment for credits in local currencies do not appear to be comparable to the local currency provisions of United States loans and PL 480 sales. Acceptance of local currencies is the normal practice in bilateral trading but these currencies can be used to buy goods for export. The United States Government, in its local currency arrangements, has generally agreed to use the greater part of the local currencies for the benefit of the country involved. In appraising the credits offered by the Soviet Bloc we need to relate Soviet state credits to the total volume of credits provided by the free world through private commercial credits and long-term private investments, as well as through government loans. We must avoid a direct comparison between Soviet state trade and the foreign economic operations of governments in a free enterprise system.

Over the longer term the disadvantages of the Soviet technique should become more apparent. For one thing, in government-to-government trading under bilateral trade agreements there has historically been a tendency toward over-pricing of merchandise on both sides. For another, under bilateral trade agreements there has to be a balance of trade both ways or one country does not get paid. In order to balance trade a

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country may have to accept goods which it does not particularly need or which might be available from other sources on more favorable terms. There is even a possibility that goods accepted in bilateral trade arrangements may be resold elsewhere with unfortunate effects upon the free world trade of the country involved. (This appears to have already happened in the case of Soviet purchases of cotton from Egypt. We understand Egypt has protested to the Soviet about dumping Egyptian cotton on Western European markets.) Additionally, heavy reliance on bilateral trade deals leaves a country vulnerable to the danger of an abrupt loss of markets or source of supply through termination or failure to renew an agreement.

The great dangers in a growth of East-West trade do not arise out of the mere exchange of peaceful goods but out of the likelihood that the Bloc will use such trade and increased contacts as a vehicle for propaganda, subversion and political pressure in those areas which are not alive to the Communist menace and which suffer from political instability. To date much of our effort in the underdeveloped areas has gone to develop military forces with the objective of deterring external aggression. It may well be that in the period ahead we should place relatively greater stress on police-type forces and covert activities designed to counter subversive activities.

The President in his press conference of March 7, 1956, put the Soviet trade problem in proper perspective as follows:

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"I really believe the United States as a whole, and specifically its Congress and its Executive departments, must study this matter very, very carefully, so that we don't get into a position of just responding to specious promises of the other side, and throwing our substance all over the world but, at the same time, have a logical solidly followed program that our friends can believe in."

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MEMORANDUM FOR:

These same papers were also sent from the Ass't.
Secretary of Treasury to Mr. D.

I understand Frank has sent that letter to DD/I
for preparation of an answer. There appears
to be no conflict.

JMC
gr

10/6/56
(DATE)

FORM NO. 101 REPLACES FORM 10-101
1 AUG 54 WHICH MAY BE USED.

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